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CEPR PRESS



Edited by Oriana Bandiera, Erica Bosio  
and Giancarlo Spagnolo



**Procurement in Focus**  
Rules, Discretion, and  
Emergencies

# Procurement in Focus

## Rules, Discretion, and Emergencies

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ISBN: 978-1-912179-53-4

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## Pandemic corruption: Insights from Latin America

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**Jorge Gallego, Mounu Prem and Juan F. Vargas<sup>1</sup>**

Universidad del Rosario

On 30 April 2021, Wilson Witzel, the then governor of the State of Rio de Janeiro, was convicted for collecting bribes to assign a US\$150 million emergency contract to build and manage seven field hospitals specialised in treating Covid-19 patients. This case is not an isolated anecdote (Milata 2020); cases of corruption associated with the management of resources earmarked to deal with the Covid-19 emergency seem to have proliferated since the outbreak of the pandemic (Rose-Ackerman 2021).

In this chapter, we argue that the global economic and public health emergency caused by Covid-19 has promoted instances of corruption, favouritism and waste of public resources. The reason behind the pandemic-driven corruption surge is simple: the health and economic crisis has pushed governments to spend large amounts of resources in a short period of time (Gentilini et al. 2020). In turn, this has led to the simplification of public procurement procedures, as well as to a weakening of oversight schemes (De Michele and Cruz 2020).

In the next section of this chapter, we delve into the economic, political and institutional mechanisms that explain why, in times of crisis such as the one generated by the Covid-19 pandemic, corruption and inefficiency problems tend to be exacerbated. In the third section, we present some cases of this phenomenon in Latin America. The fourth section discusses the Colombian case in detail. In the fifth section, we offer an overview some tools that can be used to control this phenomenon. The last section offers some concluding remarks.

### CORRUPTION AND PANDEMICS

Why do corruption, favouritism and inefficiency increase in times of crisis? A growing literature has shown how instances of malfeasance and rent-seeking tend to proliferate in extraordinary times such as wars, natural disasters or epidemics (Leeson and Sobel 2008, Gallego 2018, Khemani 2020, Maffioli, 2021). Following Querubin and Snyder

<sup>1</sup> We would like thank Simeon Djankov for helpful comments and suggestions. We thank Misión de Observación Electoral, Contraloría General de la República, and Luis Martínez for sharing with us data used in this project. Erika Corzo provided excellent research assistance.



(2013), we argue that after the occurrence of a shock of this nature, two complementary forces limit both the probity and efficiency of public spending. Crises usually generate an increase in corruption *opportunities* as well as a deterioration of *control* mechanisms.

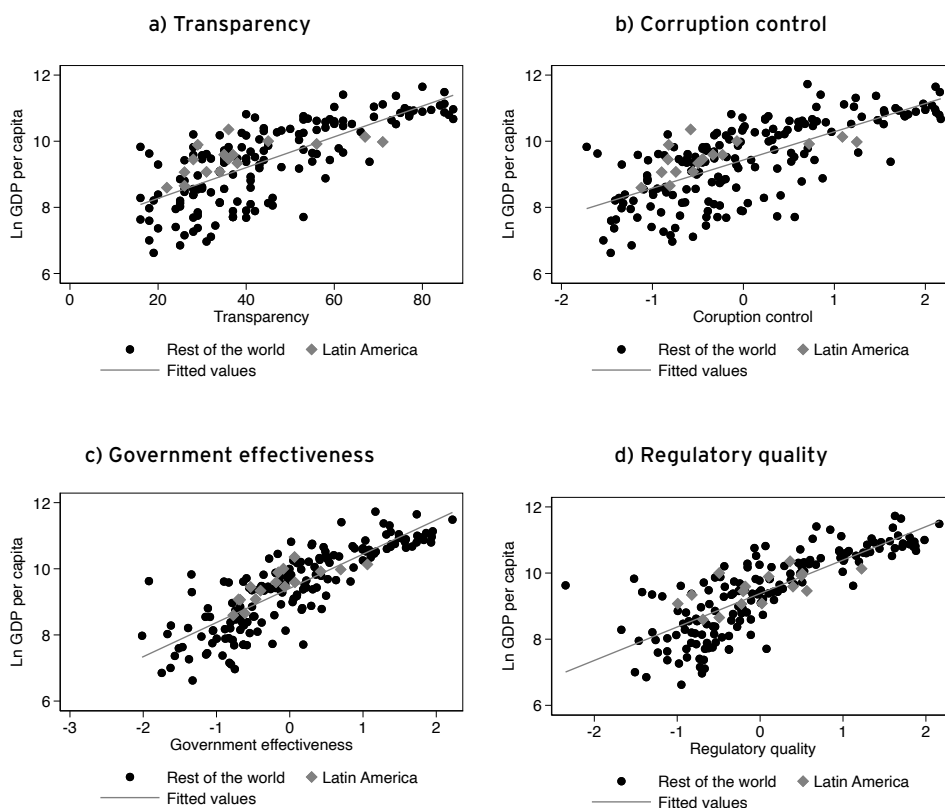
In terms of the opportunities for rent extraction, the Covid-19 pandemic pushed governments to promptly spend large amounts of resources both to address the public health challenge and to offset the negative socioeconomic impact of the pandemic. While these measures are necessary and often well intentioned, the spending surge has expanded the rents extraction opportunities of officials and bureaucrats (Bellows 2020). In other words, the spending caused by the emergency created a sort of *rapacity effect*, whereby a windfall in extractive resources attracts certain groups to seek to appropriate the available rents through various types of illicit strategies, including corruption (Dube and Vargas 2013). In relation to this mechanism, Querubin and Snyder (2013) show how the wealth of congressmen in the United States increased in the 1860s, precisely when public spending increased considerably due to the Civil War. Moreover, wealth accumulation was much larger for congressmen involved in military contracting or affiliated to committees in charge of military spending.

Second, public procurement usually takes place in an institutional environment shaped by a variety of rules and restrictions, the main objective of which is to promote competition among bidders and to limit discretion in the allocation of contracts (Bosio et al. 2021). In many countries, for example, direct contracting (which often lacks any instance of competition) is restricted to exceptional circumstances. When large catastrophes like the Covid-19 pandemic occur, however, governments tend to temporarily relax public procurement rules (Rose-Ackerman 2021). While well-intended, such institutional changes can have the side-effect of widening the opportunities for corruption and fraud. Based on the evidence collected by Gallego et al. (2021), in a later section we show how this was recently the case in Colombia.

## LATIN AMERICA DURING THE PANDEMIC

Latin America has been one of the regions most affected by Covid-19. It is also one of the regions with the highest levels of corruption. It is therefore not surprising that some of the mechanisms described in this chapter have become salient in Latin America. Figure 1 shows that there is a positive correlation globally between per-capita GDP and proxies of transparency (panel A), control of corruption (panel B), government effectiveness (panel C) and regulatory quality (panel D). It is worth noting that, relative to the world average and given their GDP level, most Latin American countries have low values on all these measures.

**FIGURE 1 LOG GDP PER CAPITA AND TRANSPARENCY**



Notes: This figure presents a scatter plot between the log of GDP per capita in real terms and a transparency index (Panel A), a corruption control index (Panel B), a government effectiveness index (Panel C), and a regulatory quality index (Panel D). The data for Panel A comes from Transparency International and for Panels B, C, and D comes from the World Bank.

Most Latin American governments had a similar response to the outbreak of the pandemic in terms of public procurement. First, the executive declared a ‘state of emergency’ or ‘public calamity’, thus securing special attributions to deal with the crisis. As a consequence, public procurement regulations were made more flexible, enabling modalities such as direct contracting as well as other mechanisms for purchasing without tenders. For instance, a presidential decree promulgated on 27 March 2020 in Mexico enabled the Ministry of Health to acquire goods and services to fight the pandemic without carrying out public bidding processes. Similar measures were issued in practically all countries in the region.<sup>2</sup> In some contexts, moreover, transparency rules that require publishing key information about contracts were relaxed, and officials were even shielded from possible investigation or sanctions associated with pandemic-related

<sup>2</sup> On 11 March Peru declared a “State of Health Emergency”; on 16 March, the “National Emergency” was decreed in Costa Rica, the same day that a “Decree of Exception for Public Calamity” was promulgated in Ecuador and one day before Colombia’s president declared a “State of Sanitary Emergency”; on 19 March, Chile declared an “Exceptional Constitutional State of National Catastrophe”, and the day after Brazil issued a “State of Public Disaster”.

spending. In Brazil, for example, President Jair Bolsonaro suspended the deadlines for public entities to respond to requests for information and protected public officials from actions or omissions in their efforts to address the emergency.<sup>3</sup>

Soon after these measures and decrees were implemented, corruption scandals related to the purchase of medical supplies and services and to the acquisition of products to alleviate the economic hardship caused by the pandemic began to proliferate in Latin America. One example in Ecuador is that of Hospital Docente de la Policía de Guayaquil, which acquired 400 mortuary bags at a value of \$130 each, almost seven times their commercial value of \$20.<sup>4</sup> In Mexico, the Instituto Mexicano de Seguridad Social bought mechanical ventilators at a unit price of \$63,000 from a company called Cyber Robotic Solutions. Other providers charged \$35,000 for the same item, and it was revealed that the selected seller belonged to the son of the Federal Electricity Commission. In Brazil, Transparency International revealed how the government acquired surgical masks for a value 12 times higher than the market value, and from a company that had ties to the president.<sup>5</sup> Something similar happened with a contract for the provision of hospital gowns, which was awarded to a company that donated to the electoral campaigns of members of the government. In Chile, over 100 companies were created during the pandemic and benefited from numerous public contracts to deal with the emergency.<sup>6</sup> Investigations of these contracts revealed substantial cost overruns and allocation to relatives of public officials and to companies whose corporate purpose had nothing to do with the services for which they were hired. In Honduras, the purchase of seven mobile hospitals for \$47 million was investigated for incurring a cost overrun of over \$12 million.<sup>7</sup> Bolivia's health minister was removed and imprisoned in May 2020 for authorising the purchase of 179 ventilators at a unit price of \$27,000 from a Spanish company that publicly advertised the same product at \$11,000.<sup>8</sup>

## THE COLOMBIAN CASE

In Gallego et al. (2021), we analyse the Colombian case in detail, and find support for one of the mechanisms described above. Just a few days after President Duque declared a state of emergency in the country, the director of the national public procurement agency, Colombia Compra Eficiente (CCE), issued a statement clarifying the implications of the decree for public procurement. According to Colombian law, direct contracting

3 For a detailed analysis of the public procurement measures implemented by the governments of the region to face the pandemic, see Lawyers Council for Civil and Economic Rights (2020). See also <https://ojopublico.com/1802/compras-de-la-pandemia-opacidad-y-sin-competencia>.

4 [www.france24.com/es/20200508-corrupcion-insumos-medicos-covid19-pandemia](http://www.france24.com/es/20200508-corrupcion-insumos-medicos-covid19-pandemia). Hospital General Guasmo Sur and Instituto Ecuatoriano de Seguridad Social paid higher prices for the same item (\$145 and \$148, respectively).

5 <http://ipsnoticias.net/2020/04/peligro-corrupcion-lucha-anticoronavirus-america-latina/>

6 [www.connectas.org/las-companias-chilenas-recien-creadas-que-ganaron-con-la-pandemia/](http://www.connectas.org/las-companias-chilenas-recien-creadas-que-ganaron-con-la-pandemia/)

7 <https://es.insightcrime.org/noticias/analisis/corrupcion-pandemia-honduras/>

8 [www.dw.com/es/arrestan-a-ministro-de-salud-de-bolivia-y-ordenan-auditor/C3%ADa-poresc%C3%A1ndalo-respiradores/a-53520623](http://www.dw.com/es/arrestan-a-ministro-de-salud-de-bolivia-y-ordenan-auditor/C3%ADa-poresc%C3%A1ndalo-respiradores/a-53520623)

is restricted to exceptional situations, such as the ‘manifest urgency’ caused by a catastrophic event. CCE encouraged mayors and governors throughout the country to declare manifest urgency and use direct contracting in relation to emergency care.

To study the effect of this relaxation of procurement protocols, we use public information from Colombia’s Sistema Electrónico para la Contratación Pública (SECOPE), which records purchases made by all public entities in Colombia. From this source, we studied over 360,000 contracts signed between 1 January and the end of April 2020, including the contract budget and duration, its purpose, and how the contract was awarded. In particular, we tracked the change in the use of discretionary contracting around the time of the outbreak of Covid-19 in the country. A large body of empirical evidence suggests that there is a close relationship between direct contracting and corruption (CAF 2019, Gallego et al. 2020, Decarolis et al. 2020).

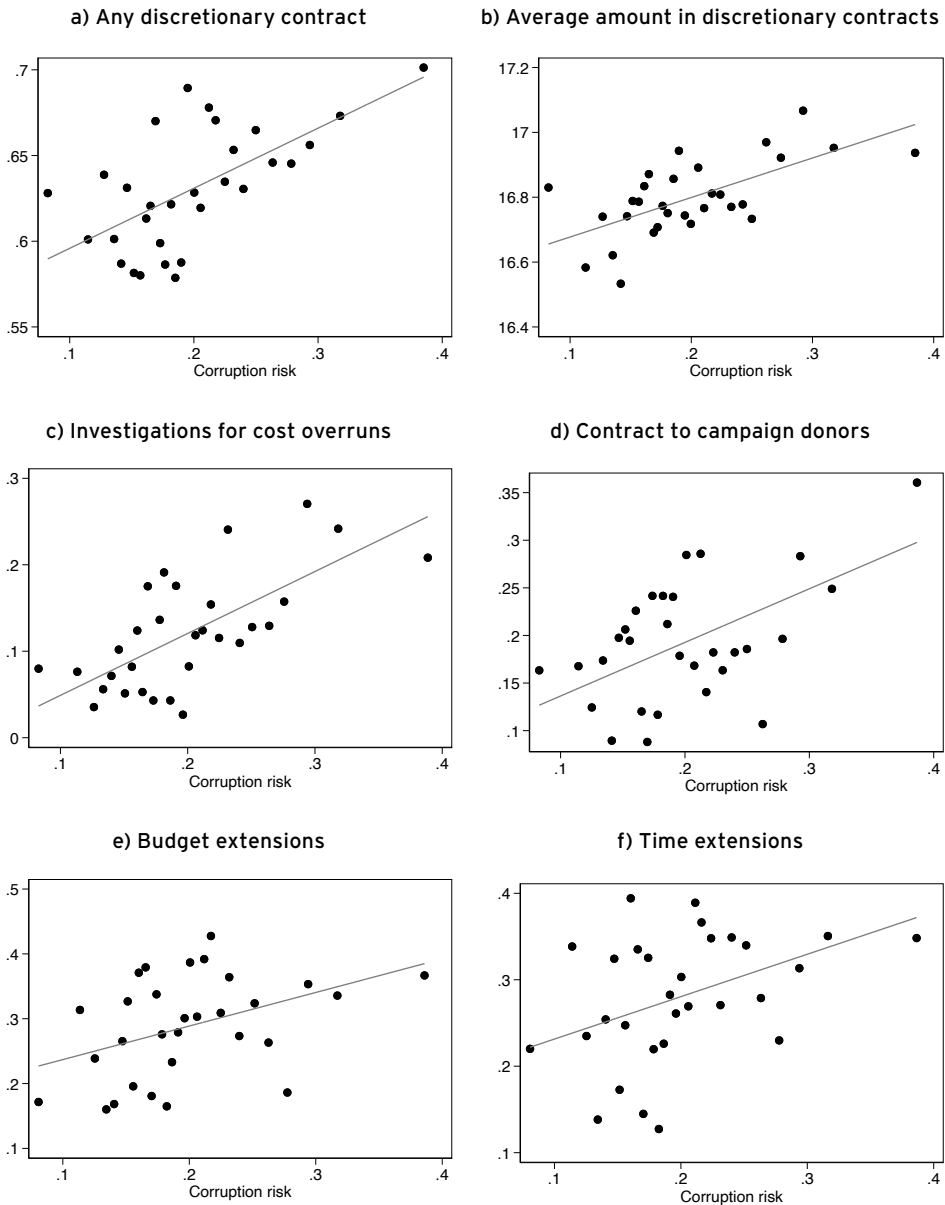
One of our main findings is that, after the pandemic arrived in Colombia, the use of direct contracts differentially increased in municipalities that, before the emergency, presented a greater risk of corruption. Since there is no official index of corruption at the municipal level in Colombia, we used machine learning models to predict this baseline corruption risk. In the models, the outcome variable is a dummy that indicates whether the mayor of a municipality was prosecuted by the Office of the Inspector General between 2008 and 2015.<sup>9</sup>

Here, we present a descriptive analysis that illustrates how public procurement processes differed at the outset of the pandemic between historically more and less corrupt municipalities in Colombia.<sup>10</sup> Figure 2 presents the correlation between our municipal corruption index and some indicators of public procurement, measured after the outbreak of the pandemic. Panels A and B show that in the municipalities with the highest risk of corruption, both the probability of using at least one discretionary contract (on a given week) and the value contracted using this modality are higher. In other words, although the possibility of using direct contracts increased throughout the country due to the declaration of emergency, the increase was greater in places that had historically been more corrupt.

9 For more details on the index, see Gallego et al. (2021).

10 In Gallego et al. (2021), we present a rigorous causal analysis based on a difference-in-differences model.

**FIGURE 2 RISK OF CORRUPTION AND PUBLIC PROCUREMENT DURING THE COVID-19 PANDEMIC**



Notes: This figure presents a scatter plot between different public procurement variables and a municipality level risk of corruption index measured before the pandemic at the municipality in Colombia. Variables are collapsed from the first case of COVID-19 in Colombia (March 6th) until the end of April. Any discretionary contract is a dummy for whether the municipality signed a discretionary contract in a given week. Average amount in discretionary contracts is the logarithm of the average discretionary contract value signed in a municipality in a given week. Investigations for cost overruns is a dummy for whether the mayor was investigated for over prices in public procurement contracts. Contract to campaign donors is a dummy for whether a campaign donor received a contract. Budget (Time) extensions is a dummy for whether the municipality had signed contracts that asked for budget (time) extensions. All panels control for the outcome variable in the pre-pandemic weeks of 2020, as well as for total population, population density, a poverty index, and department fixed effects.

While it could be argued that discretion does not necessarily imply corruption, Panel C of Figure 2 shows that the municipalities with the highest risk of corruption are more likely to have been issued an alert for cost overruns by the Office of the Comptroller General. Moreover, Panel D shows that it is more likely that in these places the contracts were assigned to campaign donors in 2019, the year when the mayors in charge of dealing with the crisis were elected. Panels E and F, additionally, show that in these places the contracts are more likely to exhibit implementation inefficiencies, in the form of budget or time extensions.

## CONTROL MECHANISMS

The arguments and evidence presented in this chapter may seem daunting. Are we cursed to suffer surges in corruption in the aftermath of a catastrophe? Naturally, a policy recommendation cannot be that governments curb spending in the face of a large negative shock. Nor it can tighten public procurement rules and thus delay relief packages that help the most vulnerable. Therefore, little can be done in terms of offsetting crisis-driven corruption *opportunities*. We are thus left with how to enforce *control* and monitoring.

A number of researchers have studied the potential of top-down and bottom-up accountability strategies to contain corruption. In particular, the role of audits and monitoring mechanisms has been highlighted (e.g. Olken 2007, Avis et al. 2018). This suggests that strengthening institutional efforts to monitor spending and procurement, as well as encouraging community-level monitoring, are strategies that could contain corruption in contexts in which catastrophic events create rent-seeking opportunities.

On the first strategy, Colombia's experience is important. After the outbreak of pandemic-related corruption scandals, watchdogs and control agencies such as the offices of the Attorney General, the Comptroller General, and the Inspector General created an institutional alliance called Transparency in the Emergency to monitor crisis-related procurement. On the second strategy, it is essential to strengthen transparency mechanisms and make contracts public and readily available. For instance, web-based public procurement platforms such as SECOP in Colombia or ChileCompra have been key to oversee public contracting during the emergency. Civil organisations have also played a fundamental monitoring role in several countries. In Argentina, for instance, Poder Ciudadano – the local chapter of Transparency International – created the Covid-19 Procurement Observatory to provide citizens with information on public procurement.

Statistics and data science can strengthen the control capacities of authorities and citizens (e.g. Colonnelli et al. 2020). In turn, this can help to allocate more efficiently the resources of watchdog agencies, which tend to be scarce. In Colombia, for example, the Office of the Comptroller General created a special unit of data scientists to use such tools to detect irregularities in public procurement during the pandemic.

In addition to being able to react to changes in the opportunities faced by bureaucrats, control strategies must also be preventive. This could be achieved, for instance, by enabling specialised catalogues on emergency-related items and price framework agreements with previously registered suppliers. Framework agreements serve as a mechanism to aggregate demand, which in turn allows contracting agencies to access more favourable conditions. It also increases transparency in procurement transactions. The case of Colombia is again illustrative. After the outbreak of corruption scandals associated with public procurement during the pandemic, CCE created a “Covid” catalogue within its Virtual Store.<sup>11</sup>

## CONCLUSION

In most countries in the Latin America region, the Covid-19 outbreak pushed governments to increase spending and lift controls. This was quickly followed by scores of corruption scandals. The Colombian case is particularly illustrative. Discretionary contracting increased substantially in the face of the pandemic, especially in places that exhibited a higher baseline risk of corruption. There, public contracts received more judicial alerts for cost overruns, were awarded to campaign donors, and experienced large inefficiencies in their execution.

Importantly, the evidence discussed in this chapter does not imply that corruption surges amid large crises are unavoidable. Audits and citizen oversight should be strengthened in these circumstances. To this end, open data and transparency are essential. Moreover, data science offers powerful tools that can enhance monitoring and control activities. Finally, certain institutional arrangements – such as specialised emergency catalogues or framework agreements – can help prevent malfeasance by making acquisitions more transparent and cost-efficient.

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<sup>11</sup> [www.colombiacompra.gov.co/tienda-virtual-del-estado-colombiano/salud/instrumento-deagregacion-de-demanda-emergencia-covid-19](http://www.colombiacompra.gov.co/tienda-virtual-del-estado-colombiano/salud/instrumento-deagregacion-de-demanda-emergencia-covid-19).

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